

Message Text

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SUBJECT: BREZHNEV'S OVERVIEW OF THE SOVIET ECONOMY

REF: (A) MOSCOW 3250, (B) MOSCOW 2819

BEGIN SUMMARY: IN A SPEECH TO THE CENTRAL COMMITTEE PLENUM ON OCT 25, GENERAL SECRETARY BREZHNEV CONFIDENTLY PREDICTED THIS YEAR'S GRAIN HARVEST WOULD CLOSELY APPROACH OR EVEN EXCEED THE 1973 RECORD HARVEST OF 223 MILLION TONS. ALTHOUGH SELECTIVE IN THE ISSUES COVERED, HE GAVE A RELATIVELY BALANCED VIEW OF THE SOVIET ECONOMY. WHILE PRAISING ACHIEVEMENTS IN INDUSTRY AND AGRICULTURE, HE ALSO DWELT ON SUCH LONG-TERM PROBLEMS AS COMPETING RESOURCE ALLOCATION CLAIMS, TIGHT SUPPLY OF FUEL AND RAW MATERIALS, THE NEED TO RAISE LABOR EFFECTIVENESS, AND THE NEED TO IMPROVE CAPITAL INVESTMENT PERFORMANCE. BASED ON THE INDUSTRIAL PRODUCTION TARGETS BREZHNEV CITED, IT WOULD APPEAR THAT THE FINAL PLAN AS APPROVED LATER THIS WEEK BY THE SUPREME SOVIET WILL EMBODY GOALS GENERALLY AT THE HIGH

END OF THE RANGE SET LAST MARCH. BREZHNEV DID STATE THAT THE MAIN
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ECONOMIC INDICATORS WOULD NOT DIFFER MUCH FROM THOSE APPROVED

BY THE PARTY CONGRESS. INNOVATIONS IN PLANNING AND MANAGEMENT WERE NOT INDICATED THOUGH BREZHNEV MADE CLEAR THESE WERE NEEDED. REFERENCE WAS MADE TO HIGH-LEVEL MEASURES RECENTLY TAKEN TO IMPROVE THE CONDUCT OF FOREIGN TRADE. DISCUSSION OF AGRICULTURE CENTERED ON THE MAIN POINTS OF THE PARTY'S POLICY WITH BREZHNEV SPECIFICALLY CRITICAL OF POOR PERFORMANCE IN PRODUCTION OF CERTAIN AGRICULTURAL MACHINERY AND MINERAL FERTILIZER. END SUMMARY. END LIMITED OFFICIAL USE.

1. BEGIN UNCLASSIFIED. ASSUMING THE DEPARTMENT ALREADY HAS THE TEXT OF THE BREZHNEV SPEECH TO THE CENTRAL COMMITTEE PLENUM ON OCTOBER 25, WE WILL REPORT THE HIGHLIGHTS AND PROVIDE ANALYSIS OF THE MAIN THEMES.

2. INDUSTRY. THE 1980 PRODUCTION TARGETS MENTIONED BY BREZHNEV FOR STEEL, OIL, AND ELECTRIC POWER WERE AT THE TOP OF THE RANGE GIVEN IN THE PLAN GUIDELINES APPROVED IN MARCH. NEW CAPITAL INVESTMENT WILL TOTAL 621 BILLION RUBLES, A DECLINE FROM THE 630 BILLION MENTIONED IN KOSYGIN'S REPORT IN MARCH, REFTEL A. ACCORDING TO BREZHNEV, HOWEVER, THE PRINCIPAL ECONOMIC INDICATORS WILL ACCORD WITH THOSE ANNOUNCED IN MARCH. THE PRINCIPAL DIFFERENCE IS THAT THE "CENTER OF GRAVITY" OF THE DRAFT PLAN, ACCORDING TO BREZHNEV, IS SHIFTING INCREASINGLY TO QUALITATIVE FACTORS WITH LABOR PRODUCTIVITY MENTIONED FOREMOST.

3. TWO PARTICULAR INDUSTRIAL PROBLEMS WERE MENTIONED. FIRST, HE STRESSED THE NEED FOR IMPROVEMENT OF PERFORMANCE IN CAPITAL CONSTRUCTION AND THE NEED TO CONCENTRATE ON PROJECT COMPLETION AND RECONSTRUCTION AND RE-EQUIPPING OF EXISTING PLANTS. THE CONSTRUCTION PROGRAM IS "TIGHT" AND BREZHNEV CALLED ON THE COUNCIL OF MINISTERS TO DEVELOP MEASURES FOR A TRANSITION IN 1977 TO NEW METHODS OF PLANNING AND FINANCING CAPITAL INVESTMENT. SECOND, HE NOTED THAT PRODUCTION MUST BE INCREASED IN SEVERAL SECTORS WHERE REQUIREMENTS ARE "GROWING FASTER" THAN THE RESOURCES. THOSE MENTIONED INCLUDE OIL, GAS, COAL, CRUDE STEEL, ROLLED STEEL, AND NON-FERROUS METALS. IT IS ALSO NECESSARY TO INTRODUCE STRICT EXPENDITURE COEFFICIENTS ("RASKHODNYE KOEFFITSIENTY") AND TO OBSERVE THE "STRICTEST REGIME" OF ECONOMY. A GOOD EXAMPLE, HE SAID IS STEEL, LIMITED OFFICIAL USE

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WHERE MORE QUALITY OUTPUT IS NEEDED, AND ECONOMY IN USAGE IS ALSO REQUIRED.

4. THE GENERAL SECRETARY CITED A NEED FOR "DECISIVE IMPROVEMENT" IN CONSUMER GOODS PRODUCTION AND SAID THAT CATEGORY "B" PLAN TARGETS ARE "MINIMAL." (BREZHNEV REPORTED THOUGH THAT GROUP "B" TARGETS FOR 1976 ARE BEING OVERFULFILLED.) HE DIRECTLY TIED IMPROVED QUALITY AND QUANTITY OF CONSUMER

GOODS TO THE DESIRED INCREASE IN LABOR PRODUCTIVITY BUT ALSO STRESSED SOCIALIST COMPETITION, MORAL INCENTIVES, WORKER AND PARTY DISCIPLINE, AND BETTER MANAGEMENT AS BEING CENTRAL TO IMPROVED PRODUCTION PERFORMANCE.

5. PLANNING AND MANAGEMENT. WHILE NOT COVERING THESE SUBJECTS IN DETAIL AND REMARKING THAT SERIOUS DISCUSSION OF THE MATTERS IS "STILL AHEAD", BREZHNEV OBSERVED THAT PLANNING, UNFORTUNATELY, STILL DOES NOT PROCEED "IN STEP" WITH LIFE NOR DOES IT BRING OUT "EXISTING RESERVES" ON TIME. THIS CAUSES THE "PRINCIPAL TENSION" OF THE CONSTITUENT ELEMENTS OF THE DRAFT PLAN. IN DISCUSSING THE NEED TO IMPROVE THE AGRO-INDUSTRIAL SECTOR, BREZHNEV CALLED FOR "DECISIVE IMPROVEMENT" IN THE MANAGEMENT OF PRODUCTION AND SAID THAT AT THE PARTY'S DIRECTOR, WORK WAS PROCEEDING ON THIS PROBLEM. HE ONLY ONCE MENTIONED A "ROUGH DRAFT" OF A 15-YEAR PLAN PERSPECTIVE AS PART OF THE OVERALL EFFORT TO MAKE IMPROVED QUALITY AND EFFICIENCY THE SOURCES OF FUTURE ECONOMIC GROWTH AND IMPROVED BALANCE IN THE ECONOMY.

6. PLANNING AND MANAGEMENT. WHILE NOT COVERING THESE SUBJECTS IN DETAIL AND REMARKING THAT SERIOUS DISCUSSION OF THE MATTERS IS "STILL AHEAD", BREZHNEV OBSERVED THAT PLANNING, UNFORTUNATELY, STILL DOES NOT PROCEED "IN STEP" WITH LIFE NOR DOES IT BRING OUT "EXISTING RESERVES" ON TIME. THIS CAUSES THE "PRINCIPAL TENSION" OF THE CONSTITUENT ELEMENTS OF THE DRAFT PLAN. IN DISCUSSING THE NEED TO IMPROVE THE AGRO-INDUSTRIAL SECTOR, BREZHNEV CALLED FOR "DECISIVE IMPROVEMENT" IN THE MANAGEMENT OF PRODUCTION AND SAID THAT AT THE PARTY'S DIRECTION, WORK WAS PROCEEDING ON THIS PROBLEM. HE ONLY ONCE MENTIONED A "ROUGH DRAFT" OF A 15-YEAR PLAN PERSPECTIVE AS PART OF THE OVERALL EFFORT TO MAKE IMPROVED QUALITY AND EFFICIENCY THE SOURCES OF FUTURE ECONOMIC GROWTH AND LIMITED OFFICIAL USE

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IMPROVED BALANCE IN THE ECONOMY.

6. AGRICULTURE. THE CENTERPIECE HERE WAS BREZHNEV'S ANNOUNCEMENT THAT THE GRAIN HARVEST THIS YEAR WILL "CLOSELY APPROACH" THE RECORD FIGURES OF 1973 (223 MILLION TONS) OR EVEN "SURPASS" IT. THIS, HE SAID, IS A "HUGH VICTORY." HE ADDED THAT A GOOD HARVEST OF SUGAR BEETS AND COTTON IS EXPECTED (SAYING NOTHING ABOUT POTATOES) AND THAT WHILE 1976 WAS A "DIFFICULT" YEAR FOR CATTLE RAISING, THE SITUATION IS NOW "CHANGING FOR THE BETTER."

7. THE DRAFT PLAN CALLS FOR "MORE THAN" 170 BILLION RUBLES TO BE INVESTED IN AGRICULTURE IN 1976-80. BREZHNEV SAID THIS WAS A "HUGH" SUM WHICH WAS "NOT EASY" TO FIND. IT WAS NECESSARY TO "CURTAIL" SOME OF THE REQUIREMENTS OF OTHER

BRANCHES OF THE ECONOMY. NO TASK, HE SAID, HOWEVER, IS "MORE PRESSING" THAN RAISING AGRICULTURE TO THE "MOST MODERN" LEVEL. THE MAIN THING NOW IS TO "CONSOLIDATE AND DEVELOP" THE SUCCESS IN GRAIN PRODUCTION BY REACHING THE LEVEL OF 235 MILLION TONS BY 1980. "PARTICULARLY" IMPORTANT ALSO IS TO PRODUCE "MUCH MORE" DAIRY AND MEAT PRODUCTS TO OVERCOME "SUPPLY DIFFICULTIES".

8. FINALLY BREZHNEV STRONGLY CRITICIZED THE MINISTRY OF TRACTOR AND AGRICULTURAL MACHINE BUILDING FOR PRODUCING OBSOLETE EQUIPMENT AND ALSO THE FAILURE OF THE CHEMICAL INDUSTRY TO MEET PLAN TARGETS FOR MINERAL FERTILIZER. HE INDICATED TOP-LEVEL ATTENTION IS BEING GIVEN BOTH PROBLEMS. AND WHILE BOOSTING HIS PROGRAM OF SPECIALIZATION AND CONCENTRATION OF AGRICULTURAL PRODUCTION ON THE BASIS OF INTER-FARM COOPERATION AND AGRO-INDUSTRIAL INTEGRATION, BREZHNEV WARNED AGAINST PREMATURE BREAKING UP OF OLD UNITS BEFORE THE NEW ONES ARE IN PLACE.

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9. FOREIGN TRADE. TRADE WITH THE "SOCIALIST" COUNTRIES WILL INCREASE BY 41 PERCENT IN 1976-80 AND 31 PERCENT WITH THE

INDUSTRIAL WEST. CITING A NEED FOR MORE EFFECTIVE CONDUCT OF FOREIGN ECONOMIC ACTIVITY, BREZHNEV STATED THAT IMPROVED MANAGEMENT IN THIS SPHERE WAS THE SUBJECT OF A RECENT CENTRAL COMMITTEE-COUNCIL OF MINISTERS DECREE. THE LATTER SET FORTH A SERIES OF STEPS TO "OVERCOME" SERIOUS" SHORTCOMINGS AND IT GAVE OUT "IMPORTANT ASSIGNMENTS." THE CENTRAL COMMITTEE WILL CONTINUE TO MONITOR THIS MATTER.

10. TAKING A GENERALLY POSITIVE APPROACH, BREZHNEV STATED THAT ECONOMIC TIES WITH THE U.S. ARE BEING BROADENED LITTLE BY LITTLE, "EVEN IN THE PRESENCE OF THOSE IMPEDIMENTS CREATED BY DISCRIMINATORY TRADE LEGISLATION IN THE U.S." IF THESE OBSTACLES HAD NOT EXISTED, HE OBSERVED, BILATERAL ECONOMIC TIES WOULD HAVE TAKEN AN "ENTIRELY DIFFERENT SCOPE." END UNCLASSIFIED.

11. COMMENT: BEGIN LIMITED OFFICIAL USE. PERHAPS THE MOST REVEALING PHRASE IN THE SPEECH OCCURRED WHEN BREZHNEV, NOTING LIMITED OFFICIAL USE

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THAT THE NEW PLAN HAD BEGUN "WELL," SAID THAT THIS IS NOT ONLY AN ECONOMIC BUT ALSO A "LARGE" POLITICAL SUCCESS. THE APPARENT FAVORABLE HARVEST, WHICH SOLVES THE MOST PRESSING PROBLEM FOR NOW, SEEMED TO GIVE BREZHNEV THE LEEWAY FOR A MORE CONTEMPLATIVE REVIEW OF THE STATE OF THE SOVIET ECONOMY. THE CONSIDERABLE EMPHASIS ON AGRICULTURE, HOWEVER, LEAVES NO DOUBT SOVIET LEADERS WELL UNDERSTAND THE PRESENT VULNERABILITY OF THE ECONOMIC SYSTEM TO THE VICISSITUDES OF THIS SECTOR. ALONG WITH THE USUAL RECITATION OF PRODUCTION ACHIEVEMENTS CAME A RATHER OPEN DISCUSSION BY BREZHNEV OF PROBLEMS SUCH AS COMPETING RESOURCES ALLOCATION CLAIMS, THE DIFFICULTIES IN RAISING LABOR PRODUCTIVITY AND ACHIEVING QUALITY AND EFFECTIVENESS IN PRODUCTION, LABOR AND RESOURCE SHORTAGES, AND DIFFICULTIES IN PRODUCING SUFFICIENT AGRICULTURAL MACHINERY AND MINERAL FERTILIZER.

12. THE DISCUSSION OF MANAGEMENT AND PLANNING REFORM SEEMED, HOWEVER, LESS FORTHCOMING THAN IN BREZHNEV'S SPEECH AT THE PARTY CONGRESS (REFTEL B), THOUGH THE NEED FOR CHANGE WAS CLEARLY SIGNALED

HIS SKETCHY TREATMENT MIGHT SUGGEST THAT A LEADERSHIP CONSENSUS ON HOW TO PROCEED HAS NOT BEEN REACHED.

13. WE WERE STRUCK BY TWO PARTICULAR ELEMENTS IN THE SPEECH. FIRST, IN THE DISCUSSION OF NATURAL RESOURCES UTILIZATION, HE MENTIONED THE NEED FOR STRICT EXPENDITURE COEFFICIENTS. THIS MOST LIKELY REFERS TO THE NEED FOR REDUCED EXPENDITURES OF RAW MATERIALS IN THE PRODUCTION PROCESS, BUT IT MIGHT ALSO IMPLY A NEED FOR CHANGE IN INTERNAL FUEL AND RAW MATERIAL PRICES TO PROMOTE MORE ECONOMIC USAGE.

SECOND, WE NOTED THE REFERENCE TO A CENTRAL COMMITTEE-COUNCIL OF MINISTERS DECREE (APPARENTLY UNPUBLISHED) ON THE CONDUCT OF FOREIGN ECONOMIC RELATIONS AND WE SPECULATE WHETHER THIS COULD IMPLY SOME ATTEMPT TO GIVE PRODUCTION MINISTRIES AND PRODUCTION ASSOCIATIONS LIMITED RIGHTS TO ENGAGE DIRECTLY IN FOREIGN TRADE. WE WOULD APPRECIATE ANY INFORMATION WASHINGTON MIGHT HAVE ON THIS SUBJECT. END LIMITED OFFICIAL USE.

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